

Sunway Construction (SCGB MK)

Results dragged by finance costs

MALAYSIA | CONSTRUCTION | RESULT

- Sunway Construction's (SunCon) 9M23 core earnings of RM96m (-2% YoY) was in line with our forecasts but missed consensus estimates
- The stronger sequential earnings were driven by higher revenue from both segments
- Maintain HOLD rating with unchanged target price at RM2.06

Result within our expectation

9M23 core earnings came in at RM96m (-2% YoY) which was in line with our estimates, but missed consensus, representing 71% and 68% of both respective full-year estimates. Despite the higher 9M23 revenue of RM1.8bn (+9% YoY), PBT came in relatively flat due to higher finance costs (+334% YoY) as SunCon turned net debt with 0.4x net gearing, from net cash in 2022 to fund several on-going projects including the India highway projects (Thorapalli and Meensurutti) and LSS4 projects.

Stronger sequential earnings

Sequentially, 3Q23 revenue and core net profit rose 11% and 17%, respectively, on the back of accelerated construction activities (+10%) and higher PBT margin for the precast segment (+3ppts) led by stronger operating leverage and higher segmental revenue (+21% QoQ). We expect 4Q23 earnings to be sequentially stronger on the back of its RM5.8bn outstanding orderbook (2.7x cover ratio on 2022 revenue), providing revenue visibility until 2027. We factored in a RM2.5bn orderbook replenishment assumption in 2024E, higher as compared to the management's RM2bn internal target, on the back of the sizeable RM26bn tender book consisting of a combination of infrastructure, data centres, warehousing, and internal Sunway Group (non-rated) jobs.

Maintain HOLD

We keep our earnings forecasts unchanged in view of the satisfactory results. We reiterate our HOLD rating with an unchanged 12-month target price of RM2.06 based on a target 16x PE multiple on 2024E EPS, in line with its historical 3-year mean. Potential catalysts include higher-than-expected orderbook replenishments. Risk to our Hold call: delay in mega infrastructure project rollouts, slower-than-expected work progress for on-going projects and margin pressures.

Key Financials

Y/E Dec	2021	2022	2023E	2024E	2025E
Revenue (RMm)	1,729.2	2,155.2	2,591.5	3,074.5	3,231.4
EBITDA (RMm)	198.9	218.9	224.4	279.1	285.1
Pretax profit (RMm)	152.2	184.1	184.0	223.0	226.5
Net profit (RMm)	112.6	135.2	136.3	165.9	168.6
EPS (sen)	8.7	10.5	10.6	12.9	13.1
PER (x)	21.7	18.0	17.9	14.7	14.5
Core net profit (RMm)	144.6	143.8	136.3	165.9	168.6
Core EPS (sen)	11.2	11.1	10.6	12.9	13.1
Core EPS growth (%)	57.3	(0.6)	(5.2)	21.8	1.6
Core PER (x)	16.9	17.0	17.9	14.7	14.5
Net DPS (sen)	5.3	5.5	5.5	5.5	6.0
Dividend Yield (%)	2.7	2.8	2.8	2.8	3.0
EV/EBITDA (x)	10.5	11.4	11.7	9.7	9.5
Chg in EPS (%)			-	-	-
Phillip/Consensus (%)			1.0	1.0	1.0

Sources: Company, Phillip Research forecasts

22 November 2023

HOLD (maintain)

LAST CLOSE PRICE	RM1.89
TARGET PRICE	RM2.06
TOTAL RETURN	9.0%

COMPANY DATA

BLOOMBERG TICKER	SCGB MK EQUITY
O/S SHARES (MN):	1,289
MARKET CAP (USD mn / RM mn):	523 / 2437
52 - WK HI/LO (RM):	1.99 / 1.41
3M Average Daily T/O (mn):	0.61
NET CASH/(DEBT) (RMm)	(314.00)

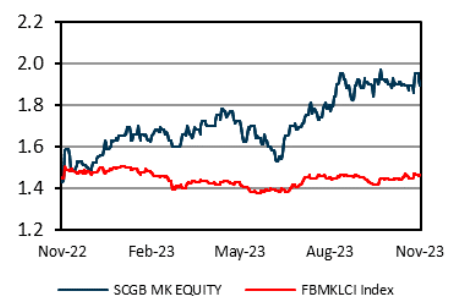
MAJOR SHAREHOLDERS (%)

Sunway Holdings Sdn	54.6%
Sungei Way Corp Sdn	10.1%
Employees Provident	9.8%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.1	9.6	27.0
FBMKLCI RETURN	1.2	2.6	1.3

PRICE VS. FBMKLCI



Source: Bloomberg

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Results at a glance

Y/E Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg	Comment
Revenue	469.3	604.1	673.5	11.5	43.5	1,651.8	1,799.7	9.0	9M23 higher construction (+2% YoY) and pre-cast (+56% YoY) revenue
Op costs	(424.5)	(552.5)	(611.3)	10.6	44.0	(1,503.2)	(1,641.0)	9.2	
EBITDA	44.7	51.6	62.2	20.6	39.2	148.6	158.8	6.9	
<i>EBITDA margin (%)</i>	<i>9.5</i>	<i>8.5</i>	<i>9.2</i>	<i>0.7ppt</i>	<i>(0.3ppt)</i>	<i>9.0</i>	<i>8.8</i>	<i>(0.2ppt)</i>	Lower profit margin due to normalisation of profit margin for its on-going projects
Depn and amort	(5.8)	(5.3)	(5.2)	(2.2)	(10.8)	(18.2)	(15.8)	(13.1)	
EBIT	38.9	46.3	57.0	23.2	46.7	130.4	143.0	9.7	
<i>EBIT margin (%)</i>	<i>8.3</i>	<i>7.7</i>	<i>8.5</i>	<i>0.8ppt</i>	<i>0.2ppt</i>	<i>7.9</i>	<i>7.9</i>	<i>0.1ppt</i>	
Int and other inc	4.1	6.7	7.0	4.5	72.7	9.5	17.8	88.6	
Int expense	(3.2)	(11.5)	(13.0)	13.8	304.4	(7.6)	(32.8)	333.6	Higher finance costs due to financing for on-going projects
Forex	0.9	0.6	(0.9)	<i>n.m</i>	<i>n.m</i>	1.2	(0.0)	<i>n.m</i>	
El	(2.9)	0.1	(2.0)	<i>nm</i>	<i>nm</i>	(9.4)	(0.2)	<i>n.m</i>	Mainly net gain on disposal of fixed assets
Pretax profit	37.6	42.3	48.1	13.8	27.9	127.8	127.9	0.1	
Tax	(13.6)	(9.0)	(12.6)	40.1	(7.7)	(34.5)	(30.5)	(11.8)	
<i>Tax rate (%)</i>	<i>36.2</i>	<i>21.3</i>	<i>26.2</i>	<i>4.9ppt</i>	<i>(10.0ppt)</i>	<i>27.8</i>	<i>23.8</i>	<i>(4.0ppt)</i>	
MI	(1.2)	(0.3)	(0.5)	88.4	(59.6)	(3.7)	(1.6)	(57.2)	
Net profit	22.7	33.0	35.0	6.1	54.1	89.5	95.8	7.0	
EPS (sen)	1.8	2.6	2.7	6.3	54.5	7.0	2.7	(60.9)	
Core net profit	24.7	32.3	37.9	17.4	53.6	97.7	96.0	(1.7)	Within expectation

Sources: Company, Phillip Research

Segmental revenue breakdown

Y/E Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg
Construction	418.9	535.6	590.6	10.3	41.0	1,529.7	1,595.2	4.3
Precast concrete	50.3	68.5	83.0	21.0	64.8	122.1	204.5	67.4
Total	469.3	604.1	673.5	11.5	43.5	1,651.8	1,799.7	9.0

Segmental PBT breakdown

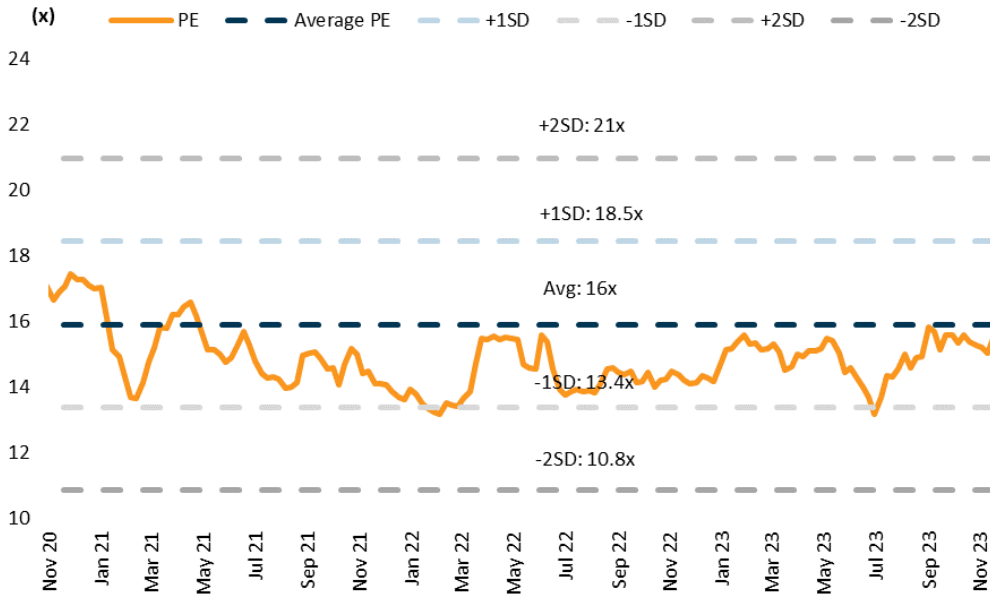
Y/E Dec (RMm)	3Q22	2Q23	3Q23	QoQ % chg	YoY % chg	9M22	9M23	YoY % chg
Construction	35.1	39.0	41.6	6.6	18.7	122.3	116.9	(4.5)
Precast concrete	2.5	3.2	6.5	101.5	156.3	5.4	11.0	103.0
Total	37.6	42.3	48.1	13.8	27.9	127.8	127.9	0.1

Segmental PBT margin

Y/E Dec (%)	3Q22	2Q23	3Q23	QoQ ppt chg	YoY ppt chg	9M22	9M23	YoY ppt
Construction	8.4	7.3	7.0	(0.2ppt)	(1.3ppt)	8.0	7.3	(0.7ppt)
Precast concrete	5.0	4.7	7.8	3.1ppt	2.8ppt	4.4	5.4	0.9ppt
Total	8.0	7.0	7.1	0.1ppt	(0.9ppt)	7.7	7.1	(0.6ppt)

Sources: Company, Phillip Research

Table 2: PE Band



Source: Bloomberg, Phillip Research forecasts

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